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SUBJECT: NEW ZEALAND AND CLIMATE CHANGE

REF: A. WELLINGTON 603
[1](#)B. WELLINGTON 991

[1](#)1. (SBU) Faced with unfavorable greenhouse gas emission projections and criticisms over its current climate change policies, the Labour Government is poised to alter its course. In the future, it will de-emphasize price-based measures and place greater emphasis on purchasing Kyoto compliant credits and exploring other approaches to reduce emissions. But while the Government and most of the public tenaciously cling to support of Kyoto, the country's ability to meet its obligations under the agreement will be difficult if not impossible. To date, there is no plan to bring agriculture -- the major source of NZ's emissions -- into an abatement scheme. In the face of declining world lumber prices and industry mistrust of government, forest sinks are not a viable option. The GNZ expects to announce a revised climate change policy by April 2006, but has already signaled one change by announcing the cancellation of the transport carbon tax -- its hallmark price-based mechanism. End summary.

Missing Kyoto Protocol Target

[1](#)2. (SBU) Only weeks before the pre-election campaign period, then Convener of the Ministerial Group on Climate Change, Minister Pete Hodgson announced on June 16 that for the first time New Zealand's estimate of its greenhouse gas (GHG) emissions would exceed targets set under the Kyoto protocol. The announcement followed Environment Ministry projections that New Zealand would fall short of its Kyoto protocol target by an estimated 36 million tons (Mt) of carbon dioxide equivalent. In 2002, Hodgson had campaigned for ratification of the treaty, saying that not signing it would be setting fire "to a very big check." At that time, estimates gave New Zealand an overall surplus position, due in large part to a sizable forestry carbon sink credit of 100Mt. But with revised projections, New Zealand likely faces an invoice of hundreds of millions of dollars.

Reviewing Climate Change Policy

[1](#)3. (U) In July 2005 the Government initiated a review of its climate change policies. Authored by bureaucrats in the Ministry for the Environment with input from the ministries of Agriculture and Forestry, Economic Development, Treasury and Transport, the final report of November 2 concluded that the GNZ should consider an alternative climate change goal that better manages the risks, opportunities and impacts associated with New Zealand's net emissions position. New Zealand's current strategic goal -- established in 2002 -- is to "enable New Zealand to make significant greenhouse gas

reductions on business as usual and be set towards a permanent downward path for total gross emissions by 2012." The review found that New Zealand was not on track to meet this goal. (NB: the report is available on-line, at www.climatechange.govt.nz)

¶4. (U) The review noted three approaches for meeting New Zealand's protocol obligations to 2012: (1) reducing emissions through domestic action, (2) establishing additional forest sinks, and (3) buying credits through the Kyoto Flexibility mechanisms. It de-emphasized the first option saying that the level of domestic reductions is likely to be small relative to New Zealand's net emissions position.

It also dismissed the second, noting offsetting New Zealand's Kyoto liability by subsidizing large-scale new forest planting would be unrealistic "because relatively little carbon would be sequestered" before 2012. Concluding that the cost of domestic abatement measures to the economy would be high compared to purchasing units on the international market, the report recommended buying credits to meet New Zealand's Kyoto obligations and suggested formulating buying strategies.

¶5. (U) Departing from the Kyoto paradigm, the report also suggested that a "quantitative goal may not be helpful in guiding policy choice in the next 5 - 7 years," and recognized that the economic cost "to New Zealand of excluding agriculture is high if New Zealand wishes to meet all its obligations through domestic abatement." The GNZ expects to announce a revised climate change policy by April 2006, but has already signaled one change by announcing the cancellation of the transport carbon tax -- its hallmark price-based mechanism (Ref B).

Politics of Climate Change

¶6. (SBU) The report aside, the Labour-government lacks sufficient votes to pass the carbon tax legislation anyway. As part of Coalition agreements to support the Government after the September 2005 elections, United Future and New Zealand First secured a Government commitment for a cost-benefit analysis prior to introducing the bill. The National and ACT parties also opposed the carbon tax, and National in particular made Labour's missteps on Kyoto an issue during the election. The only strong support for the carbon tax came from the Green Party, whose leader Jeanette Fitzsimons has now criticized the Government for "giving up on its goal to reduce New Zealand's carbon emissions," for capitulating to the anti-Kyoto lobby, and abandoning a carbon tax plan 10 years in the making.

¶7. (SBU) The announcement that the Government would drop the tax was not a surprise to those in Parliamentary circles. Prior to the September elections, rumors circulated in Parliament that Labour would abandon its proposal because its calculations no longer supported the efficacy of the tax. The exemptions to the carbon tax applied to the agricultural sector and to "at-risk emitters" on case-by-case basis create unequal incentives to reduce emissions and are perceived by interests on both sides of the debate -- including environmentalist groups and the forestry sector -- as politically-biased.

New Zealand: Clean and Green, but not Pristine

¶8. (U) How did GNZ miscalculate the country's emissions? In 1990, the Kyoto baseline year, New Zealand was emerging from a period of low growth, associated with significant economic reforms and restructuring. Since then, New Zealand's growth has been higher than many developed countries, and higher than expected when New Zealand ratified the Kyoto Protocol. Through 2003, total gross emissions were 22.5% above the 1990 base level, representing an annual average growth rate of 1.6% per year.

¶9. (U) New Zealand's emissions differ markedly from those of other developed countries, and influence the range of available mitigation options. Methane emissions from enteric

fermentation (sheep and cattle) and nitrous oxide emissions from agricultural soils, account for almost half (49%) of New Zealand's total gross emissions. For most developed countries, carbon dioxide accounts for over 75% of gross emissions. In New Zealand, carbon dioxide accounts for just 46%. Cost-effective, significant mitigation options in the agriculture sector are currently limited and are likely to remain so over the next decade. Given that New Zealand is a price-taker on the international commodities market, mitigation policies and measures that increase costs to agricultural producers raise competitiveness and profitability issues -- and will face resistance from the sector, which accounts for 54% of NZ's exports by value.

¶10. (U) New Zealand's liability under the Kyoto Protocol is vulnerable to change in land use. When the government ratified Kyoto, it "nationalized" commercially salable carbon credits from forest sinks. The forest industry believes those credits should instead be devolved to those who risk their capital to plant trees and asserts the government has taken away any incentive to plant. Changes in how forest sinks are assessed under Kyoto -- disallowing the inclusion of trees that were planted on land previously covered by scrub -- reduced New Zealand's forestry carbon sink credits and added to GNZ's miscalculations. However, commercial forest planting has decreased from an annual peak of nearly 100,000 hectares in 1994 to only 10,000 hectares last year. With a glut of timber worldwide, high land and transportation costs, and a high exchange rate, a large increase in tree planting would be unlikely anyway (Ref A).

Public Perceptions lead to more Government Woes

¶11. (SBU) The opposition has made hay from the Government's miscalculations on Kyoto, and during the elections National Party leader Don Brash said if elected he would pull NZ out of the agreement. National in particular stresses NZ's contribution to emissions is just 0.5% of that of all developed countries. Many in industry and agriculture share the opposition's contempt for Kyoto. Yet the agreement continues to receive strong backing by the media and much of the public, who applauded what they saw as NZ's principled leadership in the recent Kyoto talks in Canada. In contrast, the media and many New Zealanders present the United States and Australia as climate change pariah states that selfishly promote short-term national economic interests over a long-term sustainable climate.

Government-to-Government Cooperation

¶12. (U) In contrast to the media rhetoric, the USG and GNZ cooperate extensively in matters related to global climate change. In July 2005, U.S. Senior Climate Negotiator and Special Representative Dr. Harlan Watson led a U.S. delegation to New Zealand for the third visit under the U.S./New Zealand Bilateral Climate Change Partnership. Initiated in 2002, the purpose of the partnership is to enhance and accelerate collaboration and practical cooperation on climate change issues. To date, 35 cooperative projects have been launched focusing on nine priority areas: climate change science and monitoring; technology development; emission unit registries; GHG accounting in forestry and agriculture; engaging with business; developing country assistance; climate change research in Antarctica; public education initiatives; and development of joint product and process standards.

¶13. (U) New Zealand has also established a bilateral agreement with Australia. Key areas of cooperation with Australia include agricultural emissions abatement, energy efficiency, engagement with business and local government, and working with Pacific Island countries to address regional challenges posed by climate change.

David Parker: Minister Responsible for Climate Change Issues

¶14. (U) Groomed in the Labour Party's parliamentary stable for three years, David Parker rose to prominence in the

cabinet reshuffle of October 2005. Parker, a backbencher since his election as MP in 2002, was assigned three demanding portfolios: attorney-general, minister of energy and minister of transport. He also is minister responsible for climate change issues.

¶15. (SBU) Energy issues appear to be utmost on Parker's mind, as reflected in media reports on the cabinet appointments. "We're probably in a 50-year transition from oil-based technologies to other technologies," he said. Explaining why he became active in Labour in the 1990s, Parker has said he was incensed by the then-National government's decision to force local authorities to sell community-owned electricity assets.

¶16. (U) Parker was born in 1960. Among the few attorneys in Labour's parliamentary top tier, he was the managing partner of the South Island's largest law firm, Anderson Lloyd. He also helped establish several successful companies, ranging from agricultural biotechnology to an investment management fund. His earlier ventures included forestry partnerships and cafes. He is married with three children and lives in Dunedin.
Burnett